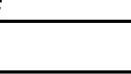


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JAPAN: Prime Minister Sato is having an increasingly difficult time maintaining party discipline.

Only strenuous, last minute efforts by the ruling Liberal Democratic Party (LDP) leadership last week succeeded in blocking the introduction of a resolution in the Diet calling for the immediate normalization of relations with Peking. The resolution was supported by dissident elements in the LDP and by the opposition parties.

A similar joint effort by dissidents and the opposition two weeks ago resulted in the defeat of the LDP's official candidate for speaker of the Upper House. Together, the actions make it clear that the Sato government can no longer count on party discipline to ensure automatic support by the LDP majority on controversial bills.

The breakdown in discipline results in part from an awareness by party representatives that this is Sato's last term and that the succession struggle is under way. There is, moreover, considerable unhappiness that Sato was caught completely off guard by President Nixon's initiative on China. Disharmony within the party is likely to intensify further in the next few months as speculation increases over the possibility that Sato's accumulating troubles will encourage him to step down early.

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JAPAN: The recently announced removal of barriers to foreign penetration of Japan's computer industry will lead to only limited liberalization.

Minister Kakuei Tanaka, head of the Ministry of International Trade and Industry (MITI), announced that imports of some computer equipment and foreign investment in certain component production would be liberalized. These concessions are largely nullified, however, by the exclusion of certain key elements of computer systems. Furthermore, investment in major computer equipment will not be allowed for three years and no plan has been developed to decontrol increasingly important computer programs.

These exceptions result from intense efforts by Japanese computer firms and MITI officials to continue supporting a high level of protection for the local industry. MITI officials claim it is unlikely that this plan will be changed significantly despite Prime Minister Sato's instruction that further liberalization be considered. [redacted]

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SOUTH VIETNAM: The government is evidently making some progress in its campaign against the smuggling of narcotics into the country.

In a series of raids last weekend in Saigon and the delta, National Police confiscated about 345 pounds of opium and 80 pounds of heroin, while arresting 19 suspected drug smugglers. [redacted]

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The Saigon government launched its antinarcotics program with great fanfare last month. The effort, which is to last three months, was undertaken primarily in response to urging from the US, and there is some question whether the government considers its vital interests sufficiently at stake to take politically costly measures against large drug traders. Despite the sizable quantity of drugs seized in the raids last weekend, it is not clear as yet whether those arrested were more than small-time pushers. [redacted]

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USSR-SUDAN: Soviet criticism of the campaign of "bloody terror" against the Communists may be the first step in an effort to prevent further persecution of the Sudanese Communist Party.

As reported by TASS, the toughest statement to date was issued by the USSR Central Trade-Unions Council on 27 July which "condemned" the execution of the head of the Sudanese Workers' Union and demanded an end to the persecution of trade unionists. Nevertheless, Moscow's warning does not suggest immediate countermoves against the Numayri government.

The Soviet press has not been friendly to Numayri's sudden return to power, and Moscow--the predominant source of Sudanese military assistance--could put pressure on the General to call off his reprisals. The scheduled execution today of the Secretary General of the Sudanese Communist Party is further evidence that Numayri is unlikely to discontinue those activities which he probably regards as a strictly internal matter.

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CEYLON: Government officials are increasingly concerned over the possibility of renewed insurgency.

On 26 July, Home Minister Felix Bandaranaike told a foreign diplomat that an insurgent attack could take place within a day or two, possibly against selected targets in Colombo. He predicted that the group which attacked the US Embassy in early March would be responsible and claimed its present strength to be 2,500.

Other reports foresee a new wave of violence beginning in August with the People's Liberation Front, which was primarily responsible for the insurgency last April, again directing the effort. Posters have begun to appear in north Colombo and outlying areas; part of the text appears to be in code, possibly announcing or giving instructions for future attacks.

The army commander reports that the government has stopped releasing insurgents, about 1,200 of whom had been set free up to 24 July. A substantial number of those released had returned to their villages. Some of them threatened the head men of their respective villages for having supported the government, and then disappeared into the countryside. Many detainees are now held near Colombo, but the government has decided to build new camps for them at several locations around the island in order to prevent a possible mass breakout and attack on the capital. [redacted]

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CUBA: Fidel Castro struck a cautiously optimistic note regarding both domestic and foreign matters in his speech on 26 July.

Castro clearly sees a favorable trend developing in Latin America. He again lauded the "revolutionary" governments of Chile and Peru and expressed optimism that in Uruguay, too, a "popular Government" could be in power following elections late this year. He also attempted to take advantage of recent statements by some Bolivian officials regarding diplomatic relations with Cuba, saying that the request of Bolivian workers and students for relations with Cuba "will not find a negative response" on the part of the Cuban Government. He indicated, however, that he expected that those involved in the execution of Che Guevara, some of whom still occupy important positions in Bolivia, would be dealt with in due time. In the meantime, he said, every positive attitude of the Bolivian Government will have Cuba's support.

In domestic affairs, Castro avoided a repetition of the bleak economic picture he painted last year at this time. Although he acknowledged that production difficulties were continuing in some sectors, he attempted to give a more positive view by presenting comparative statistics showing an increase in production in certain industries during the first quarter of 1971 over the same period last year. He gave no indication, however, that Cuba's economic problems would diminish significantly in the near future.

Regarding Cuba's relations with the US, Castro said he "will not seek a conciliation of any kind with the Yankee imperialists." Although he did not flatly reject all moves toward improved relations, he said that concessions on his part would be totally unacceptable.

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TURKEY - COMMUNIST CHINA: Ankara will recognize Peking early next month, according to Turkish press reports, but the timing of the ambassadorial exchange is uncertain. The US Embassy believes that the news reports were probably leaked by Turkish officials. Taipei's ambassador in Ankara has asserted that the Turkish move would cause his government to break diplomatic relations. Turkey would become the ninth member of NATO to recognize Peking. [redacted]

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ARGENTINA-CHILE: The presidents of the two countries met in Salta, Argentina, on 23 and 24 July to mark the signing of an agreement on arbitration procedures aimed at resolving the long-standing boundary dispute in the Beagle Channel. The harmonious and friendly meeting provided an opportunity for the military, Argentine President Lanusse, and the Marxist Chilean President Allende to size one another up. Although tensions and mutual suspicions presumably were not totally absent from the private talks, Lanusse apparently agreed to a visit to Chile later this year. The emphasis in the joint declaration on the principles of nonintervention and "political pluralism" in international affairs is generally being interpreted in Chile as an Argentine concession and a victory for Salvador Allende. [redacted]

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VENEZUELA: An opposition political party has reintroduced legislation to "nationalize" the pharmaceutical industry, for the most part American-owned. The bill, originally introduced last year, requires that Venezuelans own at least 70 percent of every company. Only firms meeting this rule will receive licenses to produce basic drugs and be eligible for government contracts. The growing sense of nationalism, which has brought about other restrictions on foreign investment, has increased the chances for passage of the bill. [redacted]

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GOLD: The London free market price of gold soared over the past two weeks to reach a two-year high yesterday just under \$42 an ounce. This increase stems from the current pervasive uncertainty in the European foreign exchange markets and a continuing weakness of the US dollar. The growing possibility that the mark will float well beyond September, when the float was expected to terminate, and the recent proliferation of proposals and discussions for international monetary reform have contributed to the insecurity of currency speculators. Prospects are remote for an appreciable drop in the price of gold, pending a resolution of the international currency difficulties.

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USSR: The Soviets have announced that industrial production grew by 8.5 percent and labor productivity seven percent for the first half of this year compared with the same period last year. The rate of growth for industrial production matches that achieved in the first half of 1970. According to Soviet calculations all major sectors of industry turned in respectable performances. The impact of the Togliatti FIAT plant is reflected in the 44-percent growth in automobile production and the doubling of new car sales compared with the first half of last year. The Soviet consumer fared well, although less spectacularly, in other areas. Retail commodity turnover grew by seven percent, and meat production registered a 16-percent gain, although this reflects a recovery from the poor results of the last two years.

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